

AR58





In today's rapidly changing business environments, many factors are catalyzing new corporate strategies in multiple industries worldwide. Deregulation, increased competition, mergers and acquisitions, globalization, and increasing customer expectations are variously affecting enterprise business decisions. **MDSI**TM is committed to leveraging its core competencies to help companies with mobile resources develop proactive strategies to facilitate customer acquisition, retention, and service innovation. **MDSI** draws upon the combined strength of its **Advantex**TM product suite, expert professional services, and strategic business alliances to deliver these business solutions successfully.



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FINANCIAL

Highlights

Unless otherwise stated, all dollar amounts are in Canadian dollars.

(in thousands, except per share amounts and number of employees)

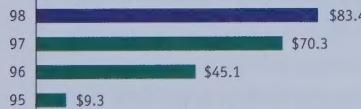
Years ended December 31

	1998	1997	1996
Revenues	\$ 83,383	\$ 70,280	\$ 45,143
Gross profit	38,794	26,921	16,822
Operating income (loss) before non-recurring charges	7,926	6,611	3,320
Net income (loss) for the year (US GAAP)	5,499	(11,547)	(6,014)
Net income (loss) for the year (CDN GAAP)	3,281	(3,470)	1,900
Earnings (loss) per common share (US GAAP) (Diluted)	0.82	(1.84)	(1.24)
Earnings (loss) per common share (CDN GAAP) (Basic)	0.50	(0.55)	0.46
Working Capital	20,871	13,655	21,380
Total Assets	56,568	40,644	45,572
Total Employees	466	378	215

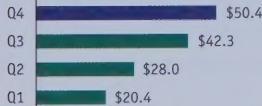
More Business



Total Revenue (\$ millions)



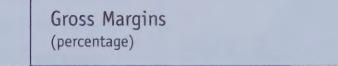
Software & Services Backlog (1998) (\$ millions)



Total Backlog (1998) (\$ millions)



At Higher Margins



Operating Margins (percentage)*



*Before one-time charges (where applicable)

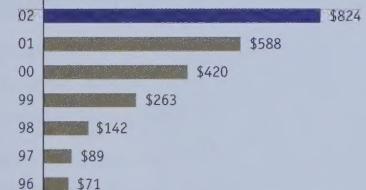
Earnings per Share (dollars)*



*Before one-time charges (where applicable)

In Growing Markets

Annual Software Revenue – Field Service/Dispatch* (\$ millions)



* Source: GartnerGroup, "Field Service/Dispatch: Get Ready for Big Changes," September 1997 report. Reprinted with permission.

Wireless Mobile Workers* (millions)



*Source: Yankee Group and Company Analysis



LETTER TO

Shareholders



Ken Miller, CEO

Having participated in MDSI's success since 1995, most recently as President and now as CEO, I have enjoyed being part of an incredible team that has ushered the company through its start-up phase to the established position it is in today.

MDSI is the leading provider of business applications and mobility solutions for companies in multiple vertical markets worldwide that fully integrate mobile resources into the enterprise. MDSI designs, develops, implements, and supports business solutions for the utility, telecommunications/cable, taxi, and courier markets. We are also developing a number of emerging markets, including commercial field service, insurance, and state and local government.

Across these markets, MDSI has over 100 customers throughout 25 countries worldwide. Our success has largely been based on our unparalleled reputation for delivering quality solutions on time and on budget.

I would like to take this opportunity to reflect on some of the corporate highlights of this past year, share some insights into MDSI's ongoing evolution, and demonstrate how the company, its solutions, and its customers are all growing – are all upwardly mobile.

Business Solutions Approach

At MDSI, we are constantly raising the bar for our competition. Understanding the kind of challenges that deregulation and other industry forces create for our customers, we are evolving our mobile workforce management offering into a full business solutions approach.

MDSI's business solutions approach erodes the boundaries between mobile resources and the enterprise in order to extend the enterprise to mobile resources, and draw mobile resources completely into the enterprise. This paradigm redefines mobile resources as a strategic asset to the enterprise, and broadens the scope of resources our customers need to manage.

In order to survive in today's business environment, customers need more than automated processes, more than remote database access, and more than operational benefits – they need to be able to transform the enterprise by quickly changing processes and accommodating innovation at the highest business level possible. By incorporating mobile resources as a key strategic asset, senior executives will be able to proactively define strategies that set the standards for customer acquisition, customer retention, and service enhancement and innovation.

Customers

Deregulation, mergers, acquisitions, globalization, and increasing customer expectations: these are powerful forces affecting customers in all of MDSI's targeted markets. Customers need to manage mobile resources across regional, national, and multinational boundaries; they may change size quickly with a merger or acquisition; or they may need to rapidly roll out a new service offering to mobile workers who themselves have increasingly cross-functional responsibilities and complex information needs.

In 1998, these factors continued to galvanize international interest in our business solutions, particularly in the utility and telecommunications/cable sectors.

Our leading North American position combined with successes such as Belgacom (the largest software contract in company history at C\$18 million), TeleDanmark, and Meralco leave us well-positioned to strengthen our international presence. Together, these worldwide markets account for approximately two-thirds of MDSI's business. As they continue to experience unprecedented change, MDSI expects continued business within these markets will be the major driver of growth in 1999 and into 2000.

The land transportation group successfully completed the implementation of systems acquired as part of the acquisition of Spectronics Microsystems (SMS) in 1996, and also signed contracts with new customers in both taxi and courier markets. We are now in position to further capitalize on our investment in this area of the business.

MDSI continues to seek new avenues for future growth and to identify new markets that would benefit from our business solutions. In 1998, we determined a need in commercial field service organizations which focus on maintenance and repair, and in insurance companies, primarily property and casualty. In combination with efforts in state and local government, we expect these markets to contribute significant business to the company over the medium and long-term.

Deregulation, mergers, acquisitions, globalization, and increasing customer expectations: these are powerful forces affecting customers in all of MDSI's targeted markets.

Products, Services, and Partners

MDSI remains committed to significant investment in research and development and dedicated to software engineering excellence. During 1998, we significantly enhanced the functionality of the Advantex product suite to ensure it continues to meet and exceed customers' business goals. Aggressive development will continue throughout 1999 as we strive for greater flexibility, scalability, and openness in terms of product functionality and solution architecture. MDSI's product evolution continues to be extremely well-received by customers, and has been instrumental in our success on many occasions.

With a renewed energy this past year to cultivate "customers for life," MDSI has expanded the scope of its professional services. MDSI services more fully encompass all aspects of a project lifecycle from initial analysis of strategic and operational objectives, solution design, project implementation, to ongoing evaluation of emerging technologies and enterprise expansion goals.

As well, we are continually aiming to enhance our customer service program. Introduced this past year, MDSI's Action Request System (MARS) is a sophisticated call management system that automatically tracks service issues from origination through to resolution. In 1999, we plan to make MARS accessible to customers via the Internet, which will allow them to easily submit service requests and immediately review request status online.

MDSI also remains focused on a hand-in-hand approach with strategic business alliances that complete and add value to our product and services programs in order that customers continually obtain the maximum from their business solution.

During 1998, we significantly enhanced the functionality of the Advantex product suite to ensure it continues to meet and exceed customers' business goals.

Financial Performance

MDSI's momentum translated into record financial performance during 1998. Our total revenues, software and services revenue, net income and earnings per share all grew in comparison to 1997. This represents the sixth consecutive year of growth in these results, excluding one-time charges to income.

For the year ended December 31, 1998, MDSI reported revenues of \$83.4 million, up 18.6% from \$70.3 million in 1997. Software and services revenue rose to \$47.5 million, a 20.6% increase over \$39.4 million recorded in 1997. Net income for 1998 was \$5.5 million, or \$0.82 (US\$0.55) per share, an increase of 19.6% compared to \$4.6 million, or \$0.70 (US\$0.50) per share, before one-time charges in 1997.

MDSI enters 1999 with the strongest backlog in company history at the end of a fiscal year. The software and services backlog rose to \$50.4 million at December 31, 1998, a 163% increase compared to \$19.2 million at December 31, 1997. Total backlog at December 31, 1998 was \$65.9 million, representing a 110% increase over \$31.4 million at December 31, 1997.

As a corporation, a business solutions provider to customers who themselves are changing and growing, and in terms of financial performance, 1998 has unquestionably been an upwardly mobile year for MDSI.

Thank you

I would like to thank our customers for their continued belief in and support of MDSI. We have a sizable number of customers who we have partnered with over the years – the best testimony, I believe, to our corporate commitments and the ability to deliver successful business solutions.

MDSI is also committed to its people and realizes that the prosperity of any company, especially in the high technology business, is attributable in no small part to its employees. With their outstanding talent and the personal sacrifices they often make, our employees have and will continue to provide us with a necessary competitive advantage in our field.



Erik Dysthe,
Chairman
of the Board

MDSI owes its present success and exciting future to the talent and commitment at all levels throughout the organization, but the company could not have grown as it has without the immeasurable contribution of key members of the senior management team.

MDSI would like to thank Erik Dysthe who was the company's CEO from inception until November of 1998. As one of the organization's founders, Erik's vision and drive established the foundation that has let MDSI become the industry leader it is today. Erik continues in his role as Chairman of MDSI and remains active in pursuing and maintaining relationships with our international customers.



Peter Kam

MDSI would like to acknowledge Peter Kam, the company's Vice President and Chief Scientist, who passed away last year. As the principal architect of the Advantex solution, Peter played an enormous role in MDSI's early success. We are forever grateful for Peter's years of invaluable contribution and friendship. Our thoughts remain with Peter's family.

Finally, I would like to thank you, our shareholders, for the support during the past year. We intend to continue to reward your confidence in us. MDSI is truly an upwardly mobile company, and I sincerely hope that you will share in our future achievements as we continue to grow through 1999 and in the years to follow.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Miller, CEO".

Ken Miller, CEO



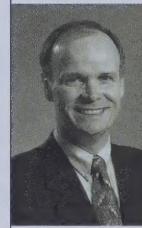
C O R P O R A T E Profile

Upwardly Mobile Corporation

With a rich history in wireless database access, computer-aided dispatching systems, and mobile workforce management solutions, MDSI personnel have been in command of "mobile data" as it has matured over the past 15 years as both concept and technology. Today, MDSI is setting the standards for business applications and mobility solutions. With its business solutions approach, MDSI is broadening the scope of mobile workforce management to reach beyond the operations level and deeper into the enterprise. By strategically including mobile resources into business processes throughout the enterprise, companies can proactively control their dynamically changing environment.

In just six years, MDSI has leveraged its core competencies and industry leading position in the North American utility industry to position the company as a leader in multiple vertical markets domestically and internationally. With major operations in the U.S., Canada, Europe, and Asia, MDSI provides business solutions worldwide to utility, telecommunications/cable, commercial field service, taxi, courier, and state and local government organizations, and is constantly assessing new market opportunities. MDSI has developed a strong revenue curve by deepening its commitment to customers in target markets, pioneering new vertical markets, expanding into new geographies, and implementing a unique cross-industry software product development strategy.

MDSI's momentum shows no signs of slowing down and the company expects to continue to grow rapidly in the foreseeable years to capitalize on the incredible opportunities the future holds. A new President and COO and a brand new, custom-designed corporate headquarters facility call attention to MDSI's belief in these opportunities and aggressive drive for continued success.



Rob Cruickshank,
President & COO

In February of 1999, Rob Cruickshank joined MDSI as President and Chief Operating Officer. With over 28 years at BC Tel (now BCT.TELUS Communications Inc.), a GTE subsidiary, Rob held several senior positions, most recently as Senior Vice President, Sales and Customer Service. Rob's extensive experience in the telephony market and in managing companies through rapid growth phases in dynamic environments will undoubtedly help MDSI direct its growth. The addition of Rob to MDSI's executive-level engine helps ensure the highest caliber senior management team is in place to further advance the company's industry leading position.

Rapid growth spurs other issues such as physical space requirements. Expansion at MDSI's corporate office alone saw the company spread between two buildings and 10 separate offices. At the end of 1998, however, MDSI welcomed the opening of an impressive three-storey, 90,000 square foot building – both for its amenities as well as for the opportunity to unite more than 275 coworkers in one corporate office. The new facility provides ample room for future employees as the company continues to grow.



New corporate headquarters

With so many major customers in various markets, MDSI brings to all its business solutions a great depth of experience and, while it has competitors in each of its primary markets, no single firm opposes MDSI in all sectors. By uniquely leveraging its core competencies in this way, MDSI is exposed to a wide knowledge base and a greater understanding of the trends and best practices in multiple industries worldwide.

MDSI's business solutions approach is continuously fuelled by customer requirements, global industry trends in multiple vertical markets, and information technology advances. These factors drive the evolution of the Advantex product suite, MDSI's services offering, and the company's strategic alliances with "best of breed" business partners.

Products



Tommy Lee,
Vice President,
Product
Development

Advantex is progressively engineered to be a leading edge product suite that addresses the specific needs of our target markets, and solves the unique strategic and operational challenges of individual companies within each market. The product suite comprises our business applications tailored for each vertical market, as well as wireless connectivity solutions.

Advantex products are designed with the flexibility for easy integration into customers' information technology infrastructures—now and as their businesses continue to evolve. Advantex is scalable (for companies of almost any size and to facilitate enterprise-wide expansion), modular (so companies can choose the functionality that best complements enterprise-wide requirements), configurable (so solutions are easily adapted to any company's business rules),

By effectively managing mobile resources, MDSI's business solutions allow companies to realize both tangible and intangible benefits at an operational level.

upgradeable (to facilitate our "customer for life" philosophy), and accessible because it uses open, industry standards (easily incorporating and interfacing to available and emerging "best of breed" technologies).

By effectively managing mobile resources, MDSI's business solutions allow companies to realize both tangible and intangible benefits at an operational level, including lower operating costs, increased productivity, and improved customer service. Key features include appointment scheduling, automatic order distribution, and real-time, wireless access to corporate information from the field.

In addition, MDSI's business solutions identify mobile resources as an asset strategic to the enterprise, and allow companies to enhance and innovate business processes proactively for a competitive advantage. Key features include enterprise scheduling and tracking of people and equipment across various functional areas, an operations datamart against which comprehensive reports on significant customer information and operational statistics can be generated, real-time wireless connectivity that extends the enterprise to mobile resources and brings mobile resources into the enterprise, and a transaction broker that extends information from disparate enterprise systems to the field as the roles of mobile resources are becoming increasingly complex and information needs are changing accordingly.

Services

Implementing enterprise-wide business solutions that achieve strategic and operational goals is a considerable challenge. Once implemented, however, these business solutions not only provide the power of productivity but also the flexibility to reengineer business processes well into the future.

MDSI maintains a "customer for life" philosophy – a long-term partnership committed to customers and their goals, now and for the future. This approach means a commitment to the highest level of customer care, which encompasses all aspects of a customer's business solution on an ongoing basis.

With unrivaled in-house expertise in the mobile environment, MDSI offers professional services at every stage of a project lifecycle. From pre-planning and evaluation, to design, development and implementation, through post-implementation review, and ongoing maintenance and support, MDSI focuses on our customers' long-term success.

With the mission-critical nature of enterprise-wide business solutions, MDSI's customer service and support is essential to maintain efficient customer operations and ongoing customer satisfaction. Our comprehensive package of services is one of the key differentiating factors in our total solution delivery. Regardless of geographic location, our customer service engineers and account managers around the world are available to provide assistance 24 hours a day, seven days a week.

Partners

MDSI's "hand-in-hand" approach to business partners motivates key alliances with "best of breed" companies who complete and add value to our business solutions. MDSI maintains relationships with complementary software partners, integration partners, and solution component partners (networks, hardware (mobile and server)), to meet customers' unique business requirements for the most appropriate system functionality, integration requirements, implementation strategies, and future growth.

MDSI maintains a "customer for life" philosophy – a long-term partnership committed to customers and their goals, now and for the future.

With these product, service, and partner programs, MDSI business solutions offer customers a "living" technology platform that solves immediate needs and accommodates future innovation and expansion at the most strategic level in the organization.

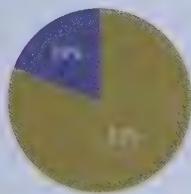
Upwardly Mobile Customers

Doing business in today's complex world means facing incredible challenges and opportunities. Across all of MDSI's markets, numerous forces are accelerating investment in business applications and mobility solutions. Deregulation, increased competition, mergers and acquisitions, globalization and increasing customer expectations for superior service are all contributing to a growing demand for, and increased expectations of, our solutions.

MDSI is well-positioned to help customers successfully navigate their rapidly changing business environments and achieve their strategic objectives of customer acquisition, customer retention, and product and service innovation. The proven quality of our industry leading products, the professional services to guide a project through all of its phases, and the ability to provide complete solutions that integrate seamlessly with enabling and complementary technologies are all factors that distinguish MDSI from the competition.

Another important element, however, clearly sets us apart from others: a track record of success that is unparalleled in the industry. That MDSI boasts over 100 customers in 25 countries worldwide inspires those who do business with us – and those who may be thinking of doing the same – with a great deal of confidence.

Revenue by Business Segment



- Field Service –
Utility, Telecommunications/Cable,
Emerging Markets
- Delivery –
Land Transport

Utility

Sample Customer List:

PACIFIC GAS & ELECTRIC

BRITISH GAS

MANILA ELECTRIC COMPANY (MERALCO)

AMERICAN ELECTRIC POWER

SAN DIEGO GAS & ELECTRIC

MICHIGAN CONSOLIDATED GAS



Doug Engerman, Vice President, Utility

The utility market is surrendering to the forces of deregulation on a global scale. Previously, utility companies had little or no competition in their service areas, so they were not driven to focus on customer service issues. In addition, new operational expenses were passed on to the consumer in the form of rate increases. These practices are no longer acceptable as companies look to enhance their competitive position by proactively developing strategies for customer retention, customer acquisition, and product and service innovation. In the past, organizations were chartered to deliver specific products and services; in a deregulated environment, they are now free to choose what to provide for customers. From power generation, to end-user delivery, or even forays into telecommunications services, companies in the worldwide utility industry continue to reinvent themselves against a rapidly changing landscape.

When MDSI began operations, its original focus was to be the pre-eminent provider of business applications and mobility solutions to the North American utility industry (electric, gas, and water). The company has been indisputably dominant in its core business and has the largest installation base among competitors to prove it. Over the years, as competitive pressures in the utility industry have intensified, MDSI has expanded its leadership position both domestically and internationally. Today, MDSI's enviable customer base includes over 60 organizations such as Pacific Gas & Electric (1300 mobile workers), British Gas (+6000 mobile workers), Michigan Consolidated Gas (1,000 mobile workers), and Manila Electric Company, or Meralco (the Philippines second biggest company, by gross revenue). MDSI has enjoyed tremendous success in meeting the growing demand in the utility industry worldwide and anticipates industry forces will continue to fuel momentum for business solutions that strategically integrate mobile resources for a competitive advantage.



Companies in the worldwide utility industry continue to reinvent themselves against a rapidly changing landscape.



Telecommunications/Cable

Sample Customer List:

AT&T WIRELESS SERVICES

BELGACOM

COX COMMUNICATIONS

CABLEVISION SYSTEMS

TELEDANMARK

CITIZENS COMMUNICATIONS



Government legislation around the world continues to dramatically change the telecommunications market, exposing former monopolies to new competitive pressures. With the forces of competition set in motion, companies are seeking new ways to retain and attract customers and to introduce new products and services into the marketplace. The need for these companies to differentiate clearly their products and services from the competition becomes even more urgent as traditional market lines continue to blur. Telecommunications and cable companies are vying for an array of product offerings

that includes cable television, Internet service, high speed data, and telephone services; in more instances, companies are offering converged services (e.g., local, long distance and wireless telephony, cable, and Internet over one line).

The realignment of the regulatory environment has created opportunities for enabling business applications and mobility solutions as companies look to information technology to meet strategic business objectives. MDSI has enjoyed tremendous success in the telecommunications and cable industries since exploding onto the scene only a few years ago. Annual bookings soared in 1998 by over 100% compared to 1997 as Advantex-Telecommunications entrenched itself as the solution of choice both at home and internationally. Major customers in the telecommunications arena include AT&T Wireless Services (1500 mobile workers), Belgacom (4,000 mobile workers), and TeleDanmark (2000 mobile workers). In the cable segment, five of the seven largest multi-system operators (MSOs) in North America have selected MDSI for its solution offering. Across both markets, MDSI expects its impressive, hard-earned track record will continue to propel even greater demand from increasingly larger organizations worldwide.

With the forces of competition set in motion, companies are seeking new ways to retain and attract customers and to introduce new products and services into the marketplace.

Land Transport

Sample Customer List:

RADIO TAXIS OF LONDON

DHL WORLDWIDE EXPRESS

COPENHAGEN TAXIS

TNT WORLDWIDE EXPRESS

CITY CAB SINGAPORE



To date in the land transport market, MDSI has primarily focused on satisfying the needs of key existing customers; now that we have successfully achieved that goal, the company is focusing on how best to take advantage of the substantial opportunities that the worldwide taxi and courier markets offer. Current customers include Radio Taxis of London (2,000 vehicles), DHL Worldwide Express (multiple countries throughout Europe, the Middle East, and Asia), CityCab Singapore (4,400 vehicles), and TNT Worldwide Express (900 vehicles).



Industry forces will continue to fuel momentum for business solutions that strategically integrate mobile resources for a competitive advantage.

Emerging Markets

Sample Customer List:

NCR CORPORATION

NORTH CAROLINA STATE HIGHWAY PATROL

STATE OF OHIO



While MDSI expects near-term growth to continue to be fueled chiefly by core markets, we expect significant contributions from targeted emerging markets over the long-term. These worldwide markets include commercial field service, which comprises any maintenance and repair organization (e.g., for ATMs, point-of-sale machines, elevators, and office equipment); insurance and financial services, primarily property and casualty carriers; and state and local government such as police, fire, and ambulance. The commercial field service market represents the greatest opportunity, and is also the most competitive. The insurance market is an excellent fit; like the utility and telecommunications segments, it is a deregulating industry comprised of large companies. And the market for state and local governments is becoming increasingly attractive due in large part to increased funding of public safety services.



CUSTOMER

Profiles

Convergence at Cox Communications

Technological evolution, deregulation, and increased competition across industries are leading many companies to diversify their product and service offerings. This diversification increases the number of work order types and adds complexity to the effective management of field resources.

The trend toward converged services is leading to some significant changes, particularly in mobile workforces. Today, in general, mobile workers tend to be highly specialized but, with this trend, many companies are cross-training field resources to perform more than one type of work.

Cox Communications (Cox), one of the largest cable television operators in the United States, with more than 3.8 million customers, is an industry leader that has quickly become one of the most successful providers of convergent services. Cox has expanded its traditional cable service offerings to include local and long-distance telephone services, high-speed Internet access, commercial voice and data services, and advanced digital video programming services.



The corporate strategy outlined the need for a scalable, object-oriented solution with the ability to support enterprise wide information technology initiatives and the increasing complexity of delivering additional products and services.

Mike Riddle, Director, Applied Technology, Cox Communications, comments: "Cox is proud to offer expanded services to its customer base, but simply offering a wide range of services is not our definition of success – delivering all services quickly, efficiently, and conveniently is!"

To achieve this goal, Cox has designed an enterprise-wide information systems strategy aimed at maximizing customer value and convenience while minimizing internal operating costs. As an integral component of this strategy, Cox contracted MDSI to implement its Advantex-Telecommunications mobile workforce management solution.

Cox chose Advantex-Telecommunications because the capabilities inherent in the solution today as well as its future product direction complement both tactical and strategic needs. The corporate strategy outlined the need for a scalable, object-oriented solution with the ability to support enterprise-wide information technology initiatives and the increasing complexity of delivering additional products and services. Additionally, the new solution had to be open in order to communicate and share information with other enterprise databases, thereby developing a sophisticated network that can be extended to the field via digital radio technology.

Additional services have resulted in a growing number of work order types that must be differentiated accordingly. "Complex orders", single work orders generated for one customer location that contain multiple tasks, have added new dimensions to the effective management of service delivery. Complex orders may call for a myriad of services such as Internet installation, cable maintenance, or long-distance service activation.

With Advantex-Telecommunications, complex orders are viewed as single work orders that require a multi-skilled field technician, or Super-tech, with the necessary skills to complete each task. If no field technician is available with the required skills, Advantex-Telecommunications will break down the order into multiple tasks and optimally manage each requirement individually.

When fully implemented, Advantex-Telecommunications will automate the activities of 2500 field technicians across nine major operating regions throughout Cox Communications. Advantex-Telecommunications provides Cox with a solution that not only meets current business requirements, but also has the flexibility to address future opportunities as the marketplace evolves.

PG&E Battles Mother Nature

One of North America's largest utilities, Pacific Gas & Electric Company (PG&E) provides gas and electric service to more than 13 million people in over 200 communities throughout northern and central California. In total, the company has approximately 21,000 employees to service an area that spans approximately two-thirds of the state.



PG&E and MDSI have been partners since late 1996, when MDSI was selected to implement a large scale, enterprise-wide business solution. Over the course of a year, the Advantex-Utility system was rolled out to four call centers (consolidated from 31 prior to the project), which currently feed 13 dispatch centers and PG&E's 1300-member workforce.

On Wednesday, April 22, 1998, a massive 700-foot wide landslide severed two high pressure gas transmission lines near Salinas, California, and disrupted gas service to more than 65,000 residents in Santa Cruz County.

With a fully operational dedicated system, PG&E effectively coordinated the efforts of an emergency workforce of approximately 780 skilled field service representatives.

According to engineers and consulting soil and geological experts, the landslide was the result of heavy El Nino rains that swept the area this past winter.

Headquartered in San Francisco, PG&E quickly mobilized a general construction crew to work throughout the evening. The crew reconnected a "shoo-fly" bypass line to one of the severed lines, but not before the residual gas had run out in both lines and more than 65,000 PG&E customers had lost service.

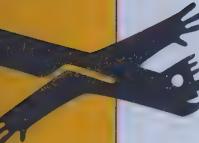
In order to best coordinate the enormous undertaking of restoring service to its customers, PG&E set up a temporary dispatch center in the "storm room" of its dispatch center in Santa Cruz. Ron Bispo, Operations Team Lead at PG&E, explains, "The morning of the landslide, we centered our emergency operations in the storm room and focused on the restoration strategy. System administrators worked swiftly to set up workstations and load MDSI's Advantex-Utility."

With a fully operational dedicated system, PG&E effectively coordinated the efforts of an emergency workforce of approximately 780 skilled field service representatives. Throughout the project, Advantex-

Utility brokered a constant flow of real-time wireless communication between the storm room and the mobile workforce. Over the next four days, emergency crews were intensively managed as they swept the affected area. Service in critical facilities such as hospitals and schools was restored first. From the dispatch center, the PG&E team closely monitored the progress in real-time as technicians worked with one customer after another.

This was the largest gas restoration project that PG&E had mounted since the infamous 1989 Loma Prieta earthquake rocked the area – while millions were tuned in to watch Major League Baseball's All Star Game at Candlestick Park. The earthquake damaged 40% of the utility's gas distribution system in Santa Cruz; on this occasion, the Salinas landslide affected close to 95% of the same system.

With a dedicated team and a well-executed emergency strategy that included Advantex-Utility, PG&E incredibly restored gas service in less than a week to all but a handful of its customers. Throughout the process, the real-time exchange of information kept everyone involved in managing the crisis abreast of all activities in the field and facilitated a highly organized operation. Well done PG&E!



CONSOLIDATED FINANCIAL Statements

Readers are encouraged to review the complete audited financial statements, the Report of Independent Auditors thereon and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K as filed with the United States Securities and Exchange Commission. Readers wishing to review the equivalent documents presented in accordance with Canadian generally accepted accounting principles are encouraged to review the Company's Annual Statutory Report. Copies of these documents may be obtained by contacting Investor Relations at the Company's head office.

The differences between Canadian and United States generally accepted accounting principles as they apply to MDSI are to be found in Note 16 to the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The consolidated statements of operations herein summarizes the impact of these differences on earnings and earnings per share. Generally, acquired research and development must be written off under United States generally accepted accounting principles whereas Canadian generally accepted accounting principles typically require capitalization and amortization of these costs over the estimated useful life of the intangible asset. In addition, the basis for the calculation of earnings per share under the two regimes are precisely defined and can produce different results.

Auditors' Report

*To the Board of Directors and Shareholders
of MDSI Mobile Data Solutions Inc.:*

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of MDSI Mobile Data Solutions Inc. as of December 31, 1998 and 1997 and the consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 1998 and in our reports dated February 25, 1999, we expressed an audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying financial schedules is fairly stated in all material respects in relation to the consolidated financial statements from which they have been derived.

Deloitte & Touche LLP
Chartered Accountants

Vancouver,
British Columbia
February 25, 1999

Consolidated Balance Sheets

Prepared in accordance with United States generally accepted accounting principles
(EXPRESSED IN CANADIAN DOLLARS)
At December 31,

	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,136,711	\$ 110,117
Accounts receivable, net		
Trade	18,776,551	15,256,202
Unbilled	12,778,398	9,604,060
Work in progress	1,377,228	1,451,662
Prepaid expenses	3,863,738	1,647,748
Deferred income taxes	1,220,350	2,096,544
Current portion of lease receivable	560,478	-
	44,713,454	30,166,333
LEASE RECEIVABLE	845,889	-
CAPITAL ASSETS, NET	5,687,543	4,291,755
INTANGIBLE ASSETS, NET	5,321,470	6,185,926
TOTAL ASSETS	\$ 56,568,356	\$ 40,644,014
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 7,698,324	\$ 3,936,501
Accrued liabilities	4,080,392	6,488,755
Income taxes payable	2,442,571	1,864,662
Deferred revenue	8,370,664	3,985,261
Current portion of long-term debt	377,332	215,454
Current obligations under capital lease	872,917	20,621
	23,842,200	16,511,254
OBLIGATIONS UNDER CAPITAL LEASES	1,907,037	-
LONG-TERM DEBT	-	296,324
TOTAL LIABILITIES	25,749,237	16,807,578
STOCKHOLDERS' EQUITY		
Common stock		
Authorized:		
Unlimited common shares with no par value		
Issued:		
1998: 6,562,088 shares;	44,637,778	43,154,039
1997: 6,459,725 shares	(122,743)	(122,743)
Treasury stock (13,475 shares)	(13,695,916)	(19,194,860)
Deficit	30,819,119	23,836,436
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 56,568,356	\$ 40,644,014

Consolidated Statements of Operations

Prepared in accordance with United States generally accepted accounting principles
(EXPRESSED IN CANADIAN DOLLARS)
Years ended December 31,

	1998	1997	1996
REVENUE			
Software and services	\$ 47,497,292	\$ 39,358,386	\$ 18,387,600
Terminals and infrastructure	8,385,099	10,645,596	8,708,078
Third party products and services	19,513,884	16,676,557	15,227,463
Maintenance and support	7,986,579	3,599,640	2,819,429
	83,382,854	70,280,179	45,142,570
DIRECT COSTS	44,589,107	43,358,975	28,320,887
GROSS PROFIT	38,793,747	26,921,204	16,821,683
OPERATING EXPENSES			
Research and development	9,894,101	6,539,841	4,356,884
Sales and marketing	13,422,494	12,070,517	5,688,455
General and administrative	6,686,231	6,088,499	3,124,748
Amortization of intangible assets	864,456	837,163	331,411
Restructuring costs	—	1,145,152	—
Acquired research and development	—	10,002,982	8,523,363
	30,867,282	36,684,154	22,024,861
OPERATING INCOME (LOSS)	7,926,465	(9,762,950)	(5,203,178)
OTHER INCOME	162,371	535,089	113,664
INCOME (LOSS) BEFORE TAX PROVISION	8,088,836	(9,227,861)	(5,089,514)
PROVISION FOR INCOME TAXES	(2,589,892)	(2,319,175)	(924,615)
NET INCOME (LOSS) FOR THE YEAR	\$ 5,498,944	\$ (11,547,036)	\$ (6,014,129)
NET INCOME (LOSS) FOR THE PERIOD:			
US GAAP	\$ 5,498,944	\$ (11,547,036)	\$ (6,014,129)
Acquired research and development	—	10,002,982	8,523,363
Amortization of intangible assets	(2,218,434)	(1,926,169)	(608,814)
CANADIAN GAAP	\$ 3,280,510	\$ (3,470,223)	\$ 1,900,420
EARNINGS (LOSS) PER COMMON SHARE:			
Canadian Basic	\$ 0.50	\$ (0.55)	\$ 0.46
US Diluted	\$ 0.82	\$ (1.84)	\$ (1.24)
WEIGHTED AVERAGE SHARES OUTSTANDING			
Canadian Basic	6,504,188	6,261,001	4,158,991
US Diluted	6,722,823	6,261,001	4,855,479

Consolidated Statements of Stockholders' Equity

Prepared in accordance with United States generally accepted accounting principles
(EXPRESSED IN CANADIAN DOLLARS)

	Common Stock Shares	Common Stock Amount	Special Warrants	Treasury Stock	Deficit	Total
Balance, January 1, 1996	3,988,387	\$ 2,315,000	\$ -	\$ (122,743)	\$ (1,633,695)	\$ 558,562
Issued on exercise of stock options	19,890	210,117	-	-	-	210,117
Issue of special warrants	-	-	3,925,100	-	-	3,925,100
Issued on conversion of debentures	144,754	797,000	-	-	-	797,000
Issued on conversion of notes payable	55,263	882,753	-	-	-	882,753
Issued on public offering	1,495,000	26,476,306	-	-	-	26,476,306
Net loss for the year	-	-	-	-	(6,014,129)	(6,014,129)
Balance, December 31, 1996	5,703,294	30,681,176	3,925,100	(122,743)	(7,647,824)	26,835,709
Issued on exercise of stock options	107,010	1,275,842	-	-	-	1,275,842
Issued under Stock Purchase Plan	21,671	343,843	-	-	-	343,843
Issued on acquisition of Alliance	347,750	6,928,078	-	-	-	6,928,078
Issued on conversion of special warrants	280,000	3,925,100	(3,925,100)	-	-	-
Net loss for the year	-	-	-	-	(11,547,036)	(11,547,036)
Balance, December 31, 1997	6,459,725	43,154,039	-	(122,743)	(19,194,860)	23,836,436
Issued on exercise of stock options	32,844	448,944	-	-	-	448,944
Issued under Stock Purchase Plan	17,919	303,395	-	-	-	303,395
Issued on conversion of warrants	51,600	731,400	-	-	-	731,400
Net income for the year	-	-	-	-	5,498,944	5,498,944
Balance, December 31, 1998	6,562,088	\$ 44,637,778	\$ -	\$ (122,743)	\$ (13,695,916)	\$ 30,819,119

Consolidated Statements of Cash Flows

Prepared in accordance with United States generally accepted accounting principles
 (EXPRESSED IN CANADIAN DOLLARS)
 Years ended December 31.

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year	\$ 5,498,944	\$ (11,547,036)	\$ (6,014,129)
Items not affecting cash:			
Depreciation and amortization	2,237,201	2,478,332	1,031,952
Deferred income taxes	147,321	454,513	924,615
Acquired research and development	—	10,002,982	8,523,363
Changes in non-cash operating working capital items	(1,997,751)	(14,847,491)	(6,141,234)
Net cash provided by (used in) operating activities	5,885,715	(13,458,700)	(1,675,433)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares	1,483,739	1,619,685	26,686,423
Repayment of long-term debt	(134,446)	(3,295,348)	(346,200)
Repayment of notes payable	—	(428,424)	(8,214,874)
Proceeds from special warrants	—	—	3,925,100
Proceeds from (repayment of) capital leases	1,560,119	(53,856)	(46,519)
Net cash provided by (used in) financing activities	2,909,412	(2,157,943)	22,003,930
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of MDSI UK	—	—	(1,089,973)
Acquisition of Alliance	—	(1,892,426)	—
Acquisition of capital assets	(2,768,533)	(2,587,833)	(953,304)
Net cash used in investing activities	(2,768,533)	(4,480,259)	(2,043,277)
NET CASH INFLOW (OUTFLOW)	6,026,594	(20,096,902)	18,285,220
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	110,117	20,207,019	1,921,799
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,136,711	\$ 110,117	\$ 20,207,019
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash payments for interest	\$ 140,475	\$ 182,513	\$ 93,648
Cash receipts for interest	\$ 147,420	\$ 344,697	\$ —
Cash payments for taxes	\$ 224,667	\$ 417,701	\$ 10,227

Corporate Information

DIRECTORS

Erik Dysthe
Chairman
MDSI

Kenneth R. Miller²
Chief Executive Officer
MDSI

Gerald F. Chew^{1,2,3}
Executive Vice President
Ancora Capital & Management Group, LLC

Bruno Ducharme^{1,3}
President and
Chief Executive Officer
Telesystem International
Wireless Services Inc.

Robert C. Harris, Jr.^{2,3}
Senior Managing Director
Bear Stearns & Co. Inc.

Terrence P. McGarty^{1,3}
President
Zepher Telecommunications

John T. McLennan³
President
Jenmark Consulting Inc.

Marc Rochefort³
Partner
Desjardins Ducharme
Stein Monast,
Barristers & Solicitors

¹ Audit Committee
² Compensation Committee
³ Corporate Governance Committee

OFFICERS

Erik Dysthe
Chairman

Kenneth R. Miller
Chief Executive Officer

Robert Cruickshank
President & Chief Operating Officer

Verne Pecho
Vice President
Finance and Administration
& Chief Financial Officer

James R. Dalbey
Senior Vice President,
International

Robert Campbell
Vice President,
Telecommunications/Cable

Brent James
Vice President,
Marketing and Business Development

Douglas Engerman,
Vice President
Utility

Glenn Kumoi,
General Counsel

M. Greg Beniston,
Vice President, Legal &
Corporate Secretary

Geoffrey Engerman,
Vice President,
US Operations

Tommy Lee,
Vice President,
Product Development

Simon Bäcker,
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Investor Information

Auditors

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Chartered Accountants
Vancouver, Canada

Legal Counsel

Dorsey & Whitney LLP
Seattle, USA

Reid & Company
Barristers & Solicitors
Vancouver, Canada

Transfer Agents and Registrars

Montreal Trust Company of Canada
Vancouver, Toronto, Canada

The Bank of Nova Scotia Trust
Company of New York
New York, USA

Common Shares

MDSI common shares are traded on
the following markets:

Nasdaq: MDSI
The Toronto
Stock Exchange: MMD
Montreal Exchange: MMD

Investor Relations

For additional copies of this report,
for the Canadian Annual Statutory
Report, for the Annual Report on
Form 10-K as filed with the United
States Securities Exchange
Commission, for Quarterly Reports,
or for further information, please
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Facsimile:

604-207-6060

E-mail:

ir@mdsi.bc.ca

Annual Meeting

MDSI's Annual General Meeting will
take place at 10:00am, Thursday,
May 6, 1999 at the Four Seasons
Hotel, 791 West Georgia Street,
Vancouver, BC.



Mobile Data Solutions

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